

## Memorandum



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**FINANCIAL SERVICES**

Document Name: 20011129fsirs02

To: Mayor and Council

From: Rich Oesterle, Financial Services Manager (x8347)

Date: November 21, 2001

**RE: Revised Revenue Estimates – FY 2001/02  
Phase II Budgetary Plan**

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Attached, for the Council's review, are the revised FY 2001/02 revenue estimates for the City and the Phase II program to address deepening recessionary concerns. This information was reviewed at the November 8<sup>th</sup> Finance and Economic Development Committee meeting. The economic recession, and particularly the tragedy of September 11<sup>th</sup>, has greatly impacted the General Fund and, to a lesser degree, other City funds.

City Sales Taxes, already down 3.7% during the first quarter, fell almost 20% off previous October collections which reflect September sales. Building related fees will be off budget by as much as one third (1/3).

Both Transit Tax and the Performing Arts tax will be 3-5% below budget, again reflecting the lack of consumer spending.

Most other funds were performing well enough not to warrant special attention. Even so, budget policies for reduced spending will remain in effect for all funds.

Staff is implementing Phase II, requesting Departments to cut an additional percent of their budget, reducing the contingency fund, delaying certain capital projects and tapping the Rainy Day Fund to address the deepening recession.

Revised estimates do not include any reductions based upon what the State may do to clear up their budgetary position. Should the State decide to balance their budget partially on the backs of financially well run local governments, Phase III would come into play.

# Comparative Revenue by Source



Revenue Source	2000-01 Revised	2001-02 Budget	2001-02 Revised	Variance
<b>General Fund</b>				
Local Taxes				
City Sales Tax	\$63,602,106	\$66,744,000	\$59,736,700	\$ (7,007,300)
Primary Property Tax	6,879,783	6,956,700	7,259,300	302,600
Transient Lodging Tax	1,725,597	1,782,000	1,557,600	(224,400)
<i>Total Local Taxes</i>	72,207,487	75,482,700	68,553,600	(6,929,100)
Intergovernmental Revenue				
State Income Tax	17,890,338	16,542,100	16,542,100	0
State Sales Tax	13,951,532	12,676,900	12,203,300	(473,600)
Vehicle License Tax	5,632,181	5,959,000	5,788,000	(171,000)
<i>Total Intergovernmental</i>	37,474,051	35,178,000	34,533,400	(644,600)
Building & Trades/Planning & Zoning				
Building Permit Fees	980,109	1,149,600	628,000	(521,600)
Plan Check Fees	669,326	660,000	365,000	(295,000)
Electrical Permit Fees	176,291	207,400	140,000	(67,400)
Planning & Zoning Fees	673,135	517,200	571,000	53,800
Other Bldg & Trades Fees	231,821	769,400	400,000	(369,400)
<i>Total Bldg &amp; Trds/Plan &amp; Zoning</i>	2,730,681	3,303,600	2,104,000	(1,199,600)
Cultural and Recreational				
Registration Fees	1,164,768	966,000	1,226,800	260,800
Kid Zone	2,107,600	1,900,000	2,007,600	107,600
Recreation Admission Charges	243,969	290,200	349,800	59,600
Library Fines and Fees	347,162	298,200	298,200	0
Other Cultural and Rec Fees	395,277	322,600	378,300	55,700
<i>Total Cultural and Recreational</i>	4,258,777	3,777,000	4,260,700	483,700
Fines, Fees and Forfeitures				
Traffic Fines	1,324,084	1,375,900	1,327,000	(48,900)
Criminal Fines	763,234	761,400	665,000	(96,400)
Parking Fines	285,423	225,000	222,000	(3,000)
Other Fines, Fees and Forfeitures	2,117,199	1,959,100	1,977,000	17,900
<i>Total Fines, Fees and Forfeitures</i>	4,489,939	4,321,400	4,191,000	(130,400)
Business/Non-Business Licenses	1,081,485	1,149,800	1,149,800	0
Other Revenue Sources				
Franchise Fees	2,044,872	1,695,600	1,695,600	0
SRP Payment in Lieu of Taxes	396,119	416,700	416,700	0
Interest Income	7,210,945	5,307,000	6,500,000	1,193,000
Loan Repayment	137,482	137,500	137,500	0
Other Miscellaneous Revenue	2,037,369	1,209,800	1,600,000	390,200
<i>Total Other Revenue</i>	11,826,787	8,766,600	10,349,800	1,583,200
<b>Total General Fund</b>	<b>134,069,207</b>	<b>131,979,100</b>	<b>125,142,300</b>	<b>(6,836,800)</b>

## Comparative Revenue by Source



Revenue Source	2000-01 Revised	2001-02 Budget	2001-02 Revised	Variance
<b>Debt Service</b>				
Secondary Property Tax	10,778,142	11,913,000	11,868,500	(44,500)
SRP Payment in Lieu of Taxes	571,074	654,800	654,800	0
Interest Income	496,376	0	0	0
<b>Total Debt Service</b>	<b>11,845,592</b>	<b>12,567,800</b>	<b>12,523,300</b>	<b>(44,500)</b>
<b>Transit Fund</b>				
Transit Tax	27,310,246	29,193,000	25,895,400	(3,297,600)
Lottery Transfer In	319,262	307,700	307,700	0
ASU-Flash Transit	310,086	345,000	345,000	0
Interest Income	3,350,335	2,242,000	2,900,000	658,000
Federal and State Funding	2,191,437	2,925,400	2,925,400	0
Miscellaneous Revenue	(15,626)	17,700	17,700	0
<b>Total Transit Fund</b>	<b>33,465,740</b>	<b>35,030,800</b>	<b>32,391,200</b>	<b>(2,639,600)</b>
<b>Transportation Funds</b>				
Intergovernmental Revenue				
Highway User Revenue Tax	11,213,830	10,162,600	9,905,950	(256,650)
State Lottery Proceeds	957,785	932,300	932,300	0
<i>Total Intergovernmental Revenue</i>	12,171,615	11,094,900	10,838,250	\$ (256,650)
Maintenance of Effort Transfer	1,850,000	0	0	0
Lottery Transfer to Transit	(319,262)	(307,700)	(307,700)	0
Other Revenue	10,859	0	0	0
<b>Total Transportation Funds</b>	<b>13,713,213</b>	<b>10,787,200</b>	<b>10,530,550</b>	<b>(256,650)</b>
<b>Rio Salado Fund</b>				
City Sales Tax	733,538	611,600	660,200	48,600
Transient Lodging Tax	60,500	123,500	54,400	(69,100)
Interest Income	477,586	283,000	283,000	0
Miscellaneous Revenue	305,767	32,200	32,200	0
<b>Total Rio Salado Fund</b>	<b>1,577,390</b>	<b>1,050,300</b>	<b>1,029,800</b>	<b>(20,500)</b>
<b>Performing Arts</b>				
Performing Arts Tax	2,607,541	5,500,000	5,179,100	(320,900)
Interest Income	9,670	104,000	110,000	6,000
<b>Total Performing Arts</b>	<b>2,617,212</b>	<b>5,604,000</b>	<b>5,289,100</b>	<b>(314,900)</b>
<b>CDBG/Section 8 Housing Funds</b>				
Community Development Block Grant	2,085,273	2,637,600	2,637,600	0
Section 8 Housing	5,184,633	4,996,200	4,996,200	0
<b>Total CDBG/Section 8 Housing Funds</b>	<b>7,269,906</b>	<b>7,633,800</b>	<b>7,633,800</b>	<b>0</b>

# Comparative Revenue by Source



Revenue Source	2000-01 Revised	2001-02 Budget	2001-02 Revised	Variance
<b>Water/Wastewater Fund</b>				
Charges for Service-Water				
Water Consumption	16,333,803	17,920,000	17,250,000	(670,000)
Water Service	6,214,275	6,140,000	6,150,000	10,000
Irrigation	280,521	275,200	275,200	0
Other Water Charges	674,324	707,400	707,400	0
<i>Total Charges for Service-Water</i>	23,502,923	25,042,600	24,382,600	\$ (660,000)
Charges for Service-Wastewater				
Sewer Usage	10,283,147	10,775,000	10,350,000	(425,000)
Sewer Service	5,449,701	3,500,000	5,200,000	1,700,000
Other Wastewater Charges	961,837	107,000	107,000	0
<i>Total Charges for Service-Wastewater</i>	16,694,685	14,382,000	15,657,000	\$ 1,275,000
Interest Income	3,880,866	2,454,000	2,700,000	246,000
Land and Facility Rental	500,000	515,000	515,000	0
Loan Repayment from General Fund	623,967	624,000	624,000	0
Other Miscellaneous Revenue	147,519	110,100	116,200	6,100
<b>Total Water/Wastewater Fund</b>	<b>45,349,960</b>	<b>43,127,700</b>	<b>43,994,800</b>	<b>867,100</b>
<b>Sanitation Fund</b>				
Charges for Services				
Residential Service	4,828,866	5,311,700	5,103,100	(208,600)
Commercial Service	3,494,747	3,841,000	3,648,100	(192,900)
Roll-Off Service	1,100,902	1,042,200	984,498	(57,702)
Recycling	170,977	171,900	59,790	(112,110)
<i>Total Charges for Service</i>	9,595,492	10,366,800	9,795,488	\$ (571,312)
Sludge Disposal	92,050	93,000	93,000	0
Interest Income	70,657	500	500	0
<b>Total Sanitation Fund</b>	<b>9,758,199</b>	<b>10,460,300</b>	<b>9,888,988</b>	<b>(571,312)</b>
<b>Golf Fund</b>				
Greens Fees	1,838,127	1,935,000	1,991,000	56,000
Pro Shop and Restaurant Revenue	225,871	202,800	180,000	(22,800)
Interest Income	70,078	50,000	50,000	0
Other Revenue Sources	3,368	0	25,000	25,000
<b>Total Golf Fund</b>	<b>2,137,445</b>	<b>2,187,800</b>	<b>2,246,000</b>	<b>58,200</b>
<b>Total Revenue - All Funds</b>	<b>\$261,803,863</b>	<b>\$260,428,800</b>	<b>\$250,669,838</b>	<b>(9,758,962)</b>

## **BUDGETARY ISSUES RESPONDING TO CURRENT ECONOMIC CONDITIONS**

### **Phase 1**

To address the potential revenue shortfall within the City's budget, the following represents an initial 5-point plan as a "first step" to insure the City's long term financial health.

1. All departments are to implement a budgetary savings program to insure they do not exceed 98% of their adopted budget for FY 2001/02.
2. Other than standard operating encumbrances, no funding will carryover into the next fiscal year.
3. Funding for programs may only be spent in the year budgeted.
4. If a budget supplemental for FY 2001/02 was approved and included a revenue offset that does not materialize during the course of the fiscal year, the department's spending must decrease by the amount of the unrealized revenue.
5. A moratorium on all activities that increase payroll spending including increases in authorized positions (trade-offs will be considered), reclassifications and employee benefits unless approved by the City Manager. Those reclassification studies currently underway will be completed.

### **Phase 2**

Recognizing the deepening recessionary cycle and the continued slowing of City revenues, the following represents the next phase to address lower than projected revenues. Revised 2001/02 revenue estimates indicate a shortfall in the General Fund of approximately \$7 million and city-wide (including all funds) of between \$9-10 million. The following phase addresses this revenue shortfall.

1. Departmental budgetary savings programs will insure the Department's budget will not exceed 97% of their adopted 2001/02 budget. (*\$2.3 million - \$3.9 million in the General Fund; \$4.1 - \$5.7 million City-wide*)
2. The General Fund contingency will be reduced to \$1.2 million for fiscal year 2001/02. (*\$1.6 million*)
3. Certain Capital Improvement Program projects utilizing pay as you go financing from the General Fund will be delayed until 1/15/02 or until further notice. (*\$2 million; \$1 million from General Purpose projects and \$1 million from Transit projects*)
4. Utilize the City's "Rainy Day Reserve" 25% of the current \$8 million reserve. (*\$2.0 million*) (Note: The expectation, once the recessionary cycle has ended, would be to re-build the Rainy Day Fund back to its current \$8 million cap over a period of 2-3 years.)
5. A selective hiring freeze will become effective immediately except for sworn police officer positions, firefighters, and police dispatch positions. All other positions will be subject to review by the City Manager's Office before hiring.

### **Phase 3**

Should the above measures not meet anticipated revenue reductions, a Phase 3 would be implemented effective January 15, 2002 and remain in effect until further notice. These measures would be in addition to those outlined above.

1. Additional Capital Improvement projects will be identified to delay.
2. Additional Rainy Day Fund monies would be utilized.

## DEFERRED CAPITAL PROJECTS

The following capital improvement projects will be deferred through the end of fiscal year 2001/02, or until such time as the revenue projections of the City have improved to warrant moving forward with the project.

Downtown Campus Remodeling	\$ 500,000
Library Carpet Replacement	305,000
ADA Improvements to the Library Restrooms	165,000
Pedestrian Crossing Refuges/Medians	100,000
Tempe Canal Multi-Use Path, Phase 1	100,000
Kyrene Canal Crossing @ Eliot	50,000
Neighborhood Pedestrian Design	300,000
Transit Center	<u>550,000</u>
<b>TOTAL</b>	<b>\$2,070,000</b>

### Notes:

- Additional prior year Transit Center design appropriations exist and will similarly be deferred until further Council action.
- Mold remediation efforts are occurring in the Library. Some of the Library Carpet Replacement may be needed to remedy this problem.